

25 August 2023

Sunway Berhad

Poised for Better 2H Across Segments

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SUNWAY's 1HFY23 results met expectations. We expect its earnings to gather momentum in 2H underpinned by strong property profits (particularly, lumpy ones from Singapore), acceleration in construction work progress, and its expanding healthcare unit. We maintain our forecasts but raise our SoP-TP by 6% to RM2.27 (from RM2.15). Maintain OUTPERFORM.

Within expectations. SUNWAY's 1HFY23 core net profit of RM291.6m made up 40% of our full-year forecast and 42% of consensus full-year estimates. We deem this to be broadly within expectations as we anticipate lumpier earnings contributions from the group's Singapore private condominium projects in which profits may only be recognised upon completion. This is anticipated to occur in 4QFY23.

YoY, its 1HFY23 revenue grew by 14% which was mainly due to higher contributions from its business segments. The group's property development and construction segments gained from higher completion and progress billing of ongoing projects while its property investment arm benefited from higher consumer spending in its leisure and hospitality operations. Although operating expenses were pressured by higher utility expenses and higher labour costs incurred due to the government's minimum wage policy implementation, operating margin was relatively stable at 9.3% (-0.1ppt). Collectively, with slower property joint venture contributions and a higher effective tax exposure, SUNWAY's 1HFY23 core net profit was relatively flat at RM291.6m (+2.8%).

Outlook. SUNWAY's property development segment focuses on launches in more strategic and matured areas to minimise inventory build-ups. As of 2QFY23, its unbilled sales of RM4.86b is expected to flow through meaningfully as construction works are expected to be unhindered. Meanwhile, its construction division is poised to gain from the roll-out of the MRT3 lines, several flood mitigation projects as well as the RTS project. Its current outstanding orderbook sits at RM5.8b. On other areas, SUNWAY is also focusing on its healthcare segment to continue as one of the group's main growth drivers as its three hospitals continued to demonstrate robust growth. The group foresees potential earnings booster for its leisure, hospitality, and healthcare sectors in the second half of this year, as international arrivals are expected to surge, benefitting the inbound leisure and medical tourism sectors.

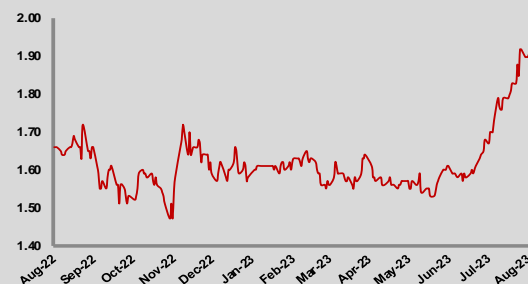
Forecast. Post results, we maintain our FY23F earnings and introduce our FY24F earnings.

Maintain OUTPERFORM with a higher SoP-driven TP of RM2.27 (from RM2.15). While our earnings are unchanged, we opt to reduce our discount to RNAV for SUNWAY to 55% (from 65%) as we reckon sentiment for the group's property development segment may pick up from higher interest in the space thanks to ongoing infrastructure projects. We continue to like SUNWAY for: (i) its healthy pipeline of medical centres located within brownfield townships, (ii) quick turnaround model for its property development arm, and (iii) a diversified range of investment assets which provides stable earnings base. We opine that its strong brand equity could also enable demand for the group's products and services to be sustained. There is no adjustment to our TP based on ESG given a 3-star rating as appraised by us.

OUTPERFORM ↔

Price : **RM1.91**
Target Price : **RM2.27** ↑

Share Price Performance



KLCI	1,444.67
YTD KLCI chg	-3.4%
YTD stock price chg	17.9%

Stock Information

Shariah Compliant	Yes
Bloomberg Ticker	SWB MK Equity
Market Cap (RM m)	9,463.4
Shares Outstanding	4,889.1
52-week range (H)	1.94
52-week range (L)	1.45
3-mth avg daily vol:	4,617,933
Free Float	23%
Beta	0.8

Major Shareholders

Sungei Way Corp Sdn Bhd	57.9%
Employees Provident Fund	7.8%
Active Equity Sdn Bhd	3.4%

Summary Earnings Table

FYE Dec (RM m)	2022A	2023F	2024F
Turnover	4,900	4,971	5,671
Operating Profit	789	1,026	1,126
Profit Before Tax	761	987	1,077
Net Profit	550	773	795
Core Net Profit	499	721	744
Consensus (NP)	-	699	747
Earnings Revision	-	-	NEW
Core EPS (sen)	10.1	14.6	15.1
Core EPS growth (%)	52.2	44.6	3.1
NDPS (sen)	3.0	5.0	5.0
NTA per Share (RM)	2.51	2.61	2.71
Price to NTA (x)	0.76	0.73	0.71
PER (x)	18.9	13.1	12.7
Net Gearing ratio (x)	0.47	0.46	0.40
Return on Asset (%)	2.0	2.8	2.8
Return on Equity (%)	4.0	5.6	5.6
Net Div. Yield (%)	1.6	2.6	2.6

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Risks to our call include: (i) a prolonged slowdown in the property, hospitality and MICE sectors, (ii) rising mortgage rates eroding affordability, and (iii) changes to urban development policies in the Klang Valley.

Results Highlight

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue	1,468.2	1,263.7	16.2%	1,280.4	14.7%	2,731.9	2,392.8	14.2%
Operating Expenses	-1,349.8	-1,187.2	13.7%	-1,190.0	13.4%	-2,537.0	-2,270.0	11.8%
Operating Income	21.8	38.4	-43.2%	70.0	-68.9%	60.2	107.1	-43.8%
Net Impairment Losses	-0.2	-1.5	-89.7%	-3.8	-95.8%	-1.7	-6.0	-71.5%
Operating Profit	140.0	113.4	23.5%	156.5	-10.5%	253.4	223.9	13.1%
Net Interest Income/(Expense)	-14.6	-4.1	259.7%	-28.2	-48.2%	-18.6	-12.4	50.5%
Share of Profit from Associates/JV	77.6	82.7	-6.2%	76.9	0.8%	160.3	176.1	-9.0%
Profit before tax	203.0	192.0	5.7%	205.3	-1.1%	395.0	387.7	1.9%
Taxation	-30.8	-33.3	-7.4%	-21.5	43.5%	-64.1	-48.2	32.9%
Minority Interest	-22.3	-17.1	30.1%	-22.4	-0.3%	-39.4	-41.4	-4.9%
Net Profit	149.9	141.6	5.9%	161.5	-7.2%	291.6	298.0	-2.2%
Core Net Profit	149.9	141.6	5.9%	161.5	-7.2%	291.6	283.6	2.8%
Operating Margin	9.5%	9.0%		12.2%		9.3%	9.4%	
Pretax Margin	13.8%	15.2%		16.0%		14.5%	16.2%	
Net Margin	10.2%	11.2%		12.6%		10.7%	11.9%	
Effective Tax Rate	15.2%	17.3%		10.5%		16.2%	12.4%	
Net Gearing	0.50	0.46		0.46		0.50	0.46	

Source: Company, Kenanga Research

Segmental Breakdown

	2Q	1Q	QoQ	2Q	YoY	6M	6M	YoY
FYE Dec (RM m)	FY23	FY23	Chg	FY22	Chg	FY23	FY22	Chg
Revenue								
Property Development	362.1	247.8	46.1%	286.4	26.4%	609.9	444.6	37.2%
Property Investment	199.4	209.9	-5.0%	149.6	33.3%	409.3	270.7	51.2%
Construction	404.1	327.9	23.2%	316.8	27.5%	732.0	685.5	6.8%
Trading and Manufacturing	227.8	224.1	1.7%	264.8	-14.0%	451.9	469.8	-3.8%
Quarry	94.5	78.2	20.8%	101.1	-6.5%	172.7	177.2	-2.5%
Healthcare	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Investment Holdings	4.2	2.3	84.8%	0.0	N.M.	6.5	0.0	N.M
Others	176.1	173.5	1.5%	161.6	8.9%	349.6	345.0	1.3%
Total Revenue	1,468.2	1,263.7	16.2%	1,280.4	14.7%	2,731.9	2,392.8	14.2%
Profit Before Tax								
Property Development	49.1	23.1	112.7%	25.7	90.9%	72.1	49.1	46.9%
Property Investment	33.9	67.2	-49.7%	53.4	-36.6%	101.1	98.4	2.7%
Construction	44.5	39.5	12.7%	44.4	0.3%	84.0	92.2	-8.9%
Trading and Manufacturing	10.1	9.6	5.3%	9.7	4.3%	19.7	20.0	-1.4%
Quarry	4.4	3.5	26.0%	1.8	143.0%	7.9	6.7	18.5%
Healthcare	37.7	28.8	30.8%	35.3	6.9%	66.6	63.5	4.7%
Investment Holdings	0.0	0.0	N.M	0.0	N.M.	0.0	0.0	N.M
Others	23.3	20.3	15.0%	35.0	-33.3%	43.6	57.7	-24.4%
Total Profit Before Tax	203.0	192.0	5.7%	205.3	-1.1%	395.0	387.7	1.9%
Pre-tax Margin								
Property Development	13.6%	9.3%		9.0%		11.8%	11.0%	
Property Investment	17.0%	32.0%		35.7%		24.7%	36.4%	
Construction	11.0%	12.0%		14.0%		11.5%	13.5%	
Trading and Manufacturing	4.4%	4.3%		3.7%		4.4%	4.3%	
Quarry	4.7%	4.5%		1.8%		4.6%	3.8%	
Healthcare	N.M	N.M		N.M		N.M	N.M	
Investment Holdings	0.0%	0.0%		N.M		0.0%	N.M	
Others	13.3%	11.7%		21.6%		12.5%	16.7%	
Total Pre-tax Margin	13.8%	15.2%		16.0%		14.5%	16.2%	

Source: Company, Kenanga Research

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SUNWAY's SOP		
Segment	Value (RM m)	Valuation basis
Property Development	2,685.9	55% discount to RNAV
Property Investment (backed by 40.9%-owned associate Sunway REIT)	3,104.5	Kenanga's TP of RM1.93 for SREIT
Construction (via 54.4%-owned Sunway Construction)	1,487.0	Kenanga's TP of RM2.12 for SunCon
Trading & Manufacturing	315.0	P/E of 10x on FY22 earnings
Quarry	89.0	P/E of 12x on FY22 earnings
Healthcare	6,191.9	30x on FY22 EV/EBITDA
Investment Holdings & Others	147.0	P/E of 7x on FY22 earnings
Net cash / (debt) at holding company level	(589.3)	As at 31 Dec 2022
Aggregate Valuation	13,431.1	
No of shares (m)	5,905.8	
RNAV per share (RM)	2.27	

Source: Company, Kenanga Research

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Peer Table Comparison

Name	Rating	Last Price (RM)	Target Price (RM)	Upside (%)	Market Cap (RM'm)	Shariah Compliant	Current FYE	Core EPS (sen)		Core EPS Growth		PER (x) - Core Earnings		PBV (x)	ROE (%)	Net Div. (sen)	Net Div Yld (%)
								1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.	1-Yr. Fwd.	2-Yr. Fwd.				
PROPERTY DEVELOPERS																	
ECO WORLD DEVELOPMENT GROUP	OP	1.03	1.03	0.0%	3,032.7	Y	10/2023	8.3	8.4	2.1%	1.5%	12.5	12.3	0.6	5.0%	5.0	4.9%
IOI PROPERTIES GROUP BHD	OP	1.42	1.60	12.7%	7,818.7	N	06/2023	13.5	14.3	4.2%	5.9%	10.5	9.9	0.4	4.0%	3.0	2.1%
MAH SING GROUP BHD	MP	0.740	0.700	-5.4%	1,796.5	Y	12/2023	6.6	7.0	1.9%	6.9%	11.2	10.5	0.5	5.5%	4.0	5.4%
S P SETIA BHD	UP	0.835	0.680	-18.6%	3,407.0	Y	12/2023	3.3	5.7	29.8%	73.9%	25.4	14.6	0.2	1.8%	2.0	2.4%
SIME DARBY PROPERTY BHD	MP	0.655	0.550	-16.0%	4,454.6	Y	12/2023	4.1	4.6	-16.5%	11.3%	15.9	14.3	0.5	3.0%	2.0	3.1%
SUNWAY BHD	OP	1.91	2.15	12.6%	9,463.4	Y	12/2023	10.8	9.6	10.5%	-10.8%	17.7	19.9	0.9	5.5%	5.0	2.6%
UOA DEVELOPMENT BHD	MP	1.78	1.77	-0.6%	4,326.8	Y	12/2023	8.9	10.2	-2.7%	14.4%	19.9	17.4	0.8	3.8%	10.0	5.6%
SECTOR AGGREGATE					34,299.7					2.9%	6.3%	14.2	13.4	0.6	4.1%		3.7%

Source: Kenanga Research

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Stock ESG Ratings:

	Criterion	Rating				
GENERAL	Earnings Sustainability & Quality	★	★	★		
	Community Investment	★	★	★		
	Workers Safety & Wellbeing	★	★	★		
	Corporate Governance	★	★	☆		
	Anti-Corruption Policy	★	★	☆		
	Emissions Management	★	★	☆		
SPECIFIC	Product Quality & Safety	★	★	★	★	
	Effluent/Water Management	★	★	★		
	Waste Management	★	★	★		
	Biodiversity & Conservation	★	★	★	☆	
	Green Building	★	★	★		
	Supply Chain Management	★	★	★		
OVERALL		★	★	★		

☆ denotes half-star
★ -10% discount to TP
★★ -5% discount to TP
★★★ TP unchanged
★★★★ +5% premium to TP
★★★★★ +10% premium to TP

Stock Ratings are defined as follows:**Stock Recommendations**

OUTPERFORM : A particular stock's Expected Total Return is MORE than 10%
MARKET PERFORM : A particular stock's Expected Total Return is WITHIN the range of -5% to 10%
UNDERPERFORM : A particular stock's Expected Total Return is LESS than -5%

Sector Recommendations***

OVERWEIGHT : A particular sector's Expected Total Return is MORE than 10%
NEUTRAL : A particular sector's Expected Total Return is WITHIN the range of -5% to 10%
UNDERWEIGHT : A particular sector's Expected Total Return is LESS than -5%

*****Sector recommendations are defined based on market capitalisation weighted average expected total return for stocks under our coverage.**

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